End Bailouts and Government Ownership in Fannie/Freddie, GM, AIG, and Other Entities

On October 3, 2010, the federal government's authority under the Troubled Asset Relief Program (TARP) officially expired. Rushed through amid fears of financial Armageddon, the thrust of the program shifted several times from buying "toxic" mortgage securities no one would touch to buying ownership stakes in order to provide a "capital cushion" to relatively healthy financial institutions—and even to propping up automakers.

Supporters are now hailing the program as a success because they claimed it calmed a panic and cost the taxpayers "only" about $50 billion. But this figure doesn't include the $700 billion that many prominent economists say the taxpayers will have to spend to rescue the government-sponsored enterprises Fannie Mae and Freddie Mac, which were put into a government conservatorship a few weeks before TARP was enacted in 2008.

While it is true that many financial institutions paid the TARP money back with interest, many never wanted to take it in the first place. They were pressured into doing so by then-Treasury Secretary Henry Paulson or bank regulators, so that the truly troubled banks would not carry the stigma of a government bailout on their own.

And it is hard to say this program program "saved" the economy, when unemployment persists at nearly 10 percent two years after it was enacted. Supporters claim that had TARP not been enacted, unemployment would have skyrocketed to 20 percent. But it is also plausible that without TARP's channeling of money toward established financial institutions considered "too big to fail" by the government, other financial institutions would have emerged to get the economy moving faster. As Stanford University economist John Taylor wrote in his book, *Getting Off Track,* TARP's passage likely "increased risks and drove the markets down."

The remaining companies under government ownership continue to damage the American economy, and the harm is not confined to the spending of taxpayer money. Firms operating with government support create a skewed playing field that disadvantages their competitors, undermining both job growth and innovation. AIG has been accused of using its $183 billion in taxpayer funds to undercut its unsubsidized competitors by slashing premiums. General Motors—now derisively known as Government Motors—has used its $50 billion in taxpayer funds to buy subprime auto lender AmeriCredit, giving it a possible competitive advantage over private-sector rivals, including Ford, Toyota, and other major automakers with plants in the U.S. And Fannie and Freddie are now virtually the only firms securitizing mortgages.